

Plan totaled approximately \$69.3 million for the year ending December 31, 2001. Due to declining investment returns, the system's unfunded liability as of January 1, 2003, has increased significantly.

Labor Relations

The City has 34 separate departments and offices with approximately 13,000 regular and temporary employees. Thirty different unions and 45 bargaining units represent approximately 75 percent of the City's regular employees. The City's contract with the Seattle Police Officers Guild expired on December 31, 2002, and negotiations for a successor contract are underway. The parties are using an "interest-based" approach rather than traditional positional bargaining. The contract with the Seattle Police Management Association (representing lieutenants and captains in the Police Department) expired at the end of 2001, and negotiations for a successor contract are continuing. The City is currently in the middle of three-year contracts with the coalition of City unions representing most non-uniformed City employees, and with IBEW Local 77, which represents electrical workers in the City Light and Transportation departments. The City also has agreements with Firefighters Local 27 and Fire Chiefs Local 2898 that generally extend through 2004.

INITIATIVE AND REFERENDUM

Under the State Constitution, Washington voters may initiate legislation and require the Legislature to refer legislation to the voters through the powers of initiative and referendum, respectively. Any such law approved by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws. The Washington State Constitution may not be amended by initiative.

The three most recent State-wide tax-related initiatives approved by State voters did not purport to affect utility rates or charges, though earlier voter-passed initiatives, which were invalidated by the State courts, might have affected utility rates or charges. Other tax and fee initiative measures have been and may be filed, but it cannot be predicted whether any such initiatives might gain sufficient signatures to qualify for submission to the Legislature and/or the voters or, if submitted, whether they ultimately would become law.

Under the City Charter, Seattle voters also may initiate local legislation and City Charter amendments and through referendum may prevent legislation passed by the City Council from becoming law.

LEGAL AND TAX INFORMATION

Bond Litigation

There is no litigation pending with process properly served on the City questioning the validity of the Bonds or the power and authority of the City to issue the Bonds.

Approval of Counsel

Legal matters incident to the authorization, issuance and sale of the Bonds by the City are subject to the approving legal opinion of Foster Pepper & Shefelman PLLC, Bond Counsel. A form of the opinion of such firm with respect to the Bonds is attached hereto as Appendix B. Bond Counsel will be compensated only upon the issuance and sale of the Bonds.

Tax Exemption

Exclusion from Gross Income. In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.